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Proceedings of
A Conference for Montana's Economic Future
Featuring Dr. David Birch
of the Massachusetts Institute of Technology

Montana

An Economy in Transition

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Montana's Economy

Transition or Transformation?

Since the early 1970s, Montana's economy has resembled its topography — characterized by peaks and valleys. Once a state reliant on its natural resources, Montana was known as an agriculture state, a mining state, a timber state. Those industries were fundamental to Montana's economic development. It was a state whose people worked with their hands. Its growth was born of physical labor. Hard work and persistance earned Montanans a reputation as highly productive, dedicated workers.

When the Arab oil embargo initiated the energy crisis in 1973, attention turned to Montana's energy resources. Coal and oil became "hot properties" as energy development companies hastened to stake a claim on the state's vast reserves. According to figures provided by the Montana Department of Commerce, employment in coal, oil and gas development nearly tripled between 1970 and 1980, rising from 2,151 in 1970 to 6,110 in 1980.

But as the Eighties dawned, national and international forces combined to send Montana and the rest of the nation into a recession. Energy surpluses extinguished the energy crisis, and consequently, the energy boom. A strong U.S. dollar made U.S. agricultural products less competitive on the world market. That, coupled with low commodity prices, forced many farmers into debt. The nationwide recession in the construction industry combined with foreign competition to cause hard times for the timber industry. The copper industry, once a substantial contributor to the state's economy, fell victim to foreign competition, surpluses and falling copper prices. The economic peaks of the Seventies eroded, creating the recessionary valleys of the Eighties in Montana and elsewhere.

Today, Montana's economy is in a state of flux. Its primary industries can no longer provide a secure foundation for Montanans' economic needs. An economic restructuring is in the offing.

Several Montana groups proposed a conference to examine the state's current economic condition and to develop ideas for promoting change. As Governor Schwinden wrote in his letter of invitation to 60 prominent Montanans, "Only with a clearer understanding of the structural changes in the nation's and Montana's economy can we develop a sensible strategy to revitalize the economy."

At the instigation of Paul Schmechel, chairman and CEO of the Montana Power Company, the conference sponsors asked small business expert Dr. David Birch to present his analysis of Montana's economy to the conference. Sponsorship of the conference represented public-private sector cooperation. Dr. Birch's appearance was funded by the Montana Power Company, and the Montana Ambassadors—with assistance from the Governor's Council on Management—provided the financial support to cover other costs of the conference. The Montana International Trade Commission and the Montana Department of Commerce organized the conference.

Seated around a large square table, participants in the Economy in Transition conference truly represented a meeting of the minds. With Dr. Birch's thought-provoking presentation as the stimulus, the conference participants, who represented Montana business, education and government, analyzed his conclusions and offered some of their own.

Five discussion groups, each representing a different sector of the state's economy, provided a forum for in-depth discussion during the afternoon session. Representatives of transition businesses shared their experiences in establishing and operating new businesses in Montana. Those firms may represent the new mix of industry needed as the state heads toward the 21st Century. After the discussions, the facilitators reported the conclusions of each group to the entire conference. After Dr. Birch answered some final questions from the audience, Governor Schwinden and Paul Schmechel concluded the conference with some proposals to continue the work that was initiated there.

Montana's economy won't be transformed as the result of a day-long conference, but the Economy in Transition conference may have planted some seeds of innovation that could blossom into substantive change.

Dr. David Birch

Dr. David Birch is a leading authority on employment, business growth and economic change. A prominent researcher on small business, Dr. Birch has been associated with the Massachusetts Institute of Technology (MIT) for many years. He is president of Cognetics, Inc., a company that specializes in using micro-economic analysis techniques to determine the sources of economic change for specific metropolitan and rural areas of the United States. Dr. Birch is a pioneer in developing those economic analysis techniques.

Cognetics, Inc. provides forecasting, analysis, strategic research and marketing support for its clients, which have included representatives of banking, insurance, telecommunications, financial services, accounting and real estate. Cognetics, Inc. has also served public sector clients such as the Commonwealth of Massachusetts and the government of Canada, as well as a number of local economic development agencies.

In 1979, Dr. Birch published "The Job Generation Process," an analysis of the job market in which he demonstrated that small businesses were the primary source of new jobs. According to *INC.* magazine, Birch's paper "jostled public perceptions of the economy as no academic study had done in decades." The study identified the critical role of innovation, particularly by small companies, in creating jobs. Dr. Birch is also the principal author of a new study, "America's Office Needs: 1985-95," which will provide the first definitive assessment of that subject.

In 1980, the Small Business Administration named Dr. Birch "Researcher of the Year." He has been the director of MIT's Program on Neighborhood and Regional Change since that year. Dr. Birch has served on the faculties of both MIT and the Harvard Business School. He received his A.B. degree from Harvard College and MBA and DBA degrees from the Harvard Business School.

Facilitators

Marilyn Wessel has served as director of communications and as assistant to the president of Montana State University for the past four years. She is currently co-director of the Taxation in the Montana Economy conference scheduled in September 1986 in Helena.

Maureen Fleming, a professor of management at the University of Montana's School of Business Administration, specializes in organizational behavior. She has written for such publications as the *Journal of Small Business Management*, the *International Journal of Management*, the *Montana Business Quarterly* and the *Wall Street Journal's* Index of Selected Articles in Management.

Nancy Scheetz-Freymiller has been manager of community relations for the Montana Power Company since 1979. Recently she directed the Citizen's Task Force on Energy Problems of Fixed and Low-Income Consumers. She earned a master's degree in Social Work and Human Services Planning and Administration from the University of Wisconsin.

Francis J. Kerins has served as president of Carroll College since 1974. From 1969 to 1974 he was president of the College of St. Francis in Joliet, Illinois. He currently chairs two academic councils: the Commission on Colleges of the Northwest Association of Schools and Colleges (the regional accrediting agency) and the Board of the Association of Catholic Colleges and Universities.

Larry K. Hannah has been the director of Career Placement and Career Services at Eastern Montana College (EMC) since 1979. Before that he was an assistant professor of speech communication at EMC for 12 years and also served as the college's debate coach. He received a grant from the Montana Committee for the Humanities for planning and evaluation of public programs.

Optimism Tempered with Realism Flavors Opening Speakers' Remarks

As the opening speakers at the Economy in Transition conference, both Governor Ted Schwinden and Montana Power executive Paul Schmechel set the tone for the day with a combination of realism and optimism.

Gov. Schwinden praised the cooperative efforts of public and private organizations in arranging and sponsoring the conference and remarked that Butte was the most appropriate place to hold a conference on Montana's changing economy.

"As the residents of this Butte-Anaconda area know, the shock waves of the new economy came first, and most dramatically, to here," the Governor said. "But Butte's an appropriate place to grapple with economic strategies for the future for another, more important reason. This community really symbolizes in a genuine, historic sense, the traditional determination of Montana people to survive and prosper."

Quoting Hubert Humphrey, the Governor said, "We have to decide today whether we will design the future or resign ourselves to it." He added that he doubted anyone in the room knew the meaning of the word "resign."

Both the Governor and Paul Schmechel emphasized the need to seek realistic economic solutions. As the Governor put it, "We are certainly not looking for ways to prop up economic dinosaurs. We are seeking to develop some long-range plans and options that recognize and adapt to the increasingly global marketplace."

The Governor noted that *Business Week* had recently referred to Montana and its Western neighbors as "America's Deflation Belt," signifying the kind of economic turmoil caused by national and international forces.

Paul Schmechel, chairman and chief executive officer of the Montana Power Company, acknowledged both Montana's economic strengths and weaknesses in his opening remarks.

On the plus side, he said, "...we can sense some faint quickening of Montana's economic pulse. Those heartbeats come in the form of some 900 jobs created with the help of the Ambassadors."

He mentioned the Advanced Technology Park in Bozeman, the business incubator in Butte and

"We are certainly not looking for ways to prop up economic dinosaurs."

Ian Davidson, president of the Montana Ambassadors, tells conference participants that Montanans must have patience, involvement and a long-term strategy to make Montana's economy more competitive. (PHOTO BY CORT FREEMAN)

Paul Schmechel, chairman and CEO of the Montana Power Company, tells conference participants "we can sense some faint quickening of Montana's economic pulse." (PHOTO BY TONY DI FRONZO, JR.)

"Together... we are on the road to demonstrating that Montana can be an attractive place for business. We are replacing hostility with hospitality. We are replacing confrontation with consensus. And we're doing it without sacrificing the values we hold dear as Montanans"

the talc mine and milling operations in southwestern Montana as encouraging signs of new development in Montana.

On the minus side, Schmechel described the downturns suffered by several of Montana's major industries in the past few years.

"After enduring drought for several years, our farmers can look forward to good grain crops this year. But the price of wheat is down more than 50 cents. Oil and gas exploration has slowed dramatically. The wood products industry is in transition. The livestock business is less than robust," he said.

The Montana Power executive laid out some specific steps for Montanans to take towards revitalizing the economy:

•Understand what has happened to the state's economy;

•Seek new directions and bend their efforts in new ways, and

•Seek a greater measure of unity with each other.

Both Schwinden and Schmechel stressed the need for cooperative, public-private efforts to find appropriate ways to enhance Montana's economy. Underscoring the need for the private sector to become actively involved in those efforts, Schmechel said, "As one Montanan representing one corporation, I know that we have a very distinct interest in the economic health of Montana and her people. Regardless of the constituency you represent, you, too, have a fundamental stake in the economic future of this great state. You don't prosper and I don't prosper if Montana does not prosper."

Echoing the need to work together, the Governor repeated a remark that Paul Schmechel had made a few months before, "Together... we are on the road to demonstrating that Montana can be an attractive place for business: We are replacing hostility with hospitality. We are replacing confrontation with consensus. And we're doing it without sacrificing the values we hold dear as Montanans."

Montana: An Economy in Transition

Keynote Presentation
by Dr. David L. Birch *

The U.S. Economy

Dr. Birch began his presentation with a broad overview of the changes that have occurred in the U.S. economy during the past 15 years. He described the methodology he used to examine those changes and presented findings illustrating the turbulence of the nation's economy. Job loss, replacement of those jobs, kinds of new jobs being created highlighted Dr. Birch's remarks on the changing structure of the U.S. economy.

Methodology

In describing the methodology he used to analyze the economy, Birch said, "It's sort of an economic microscope, an ability to look at the economy one particle at a time."

Since 1969, Birch and his colleagues have studied the history of about 15 million individual business addresses, aggregating them up into the companies to which they belong, and then aggregating them up to the cities, towns, states and regions to whose economies they belong. "We decided to break it down into the individual pieces from which it's built...the individual business establishments, the individual buildings if you will," he said.

Job Loss

Their findings: a turbulent economy whose job base is continually changing. "We're turning over something like 8-10 percent of our jobs and 8-10 percent of our companies every year," Birch said. "That means we have to replace 50 percent of our job base every five years to break even nationwide."

No matter what part of the country they examined, Birch and his colleagues found the 8-10 percent figure remained constant.

"It didn't make any difference if you were declining or growing... you lost 8-10 percent a year," he said. "It was a fascinating finding because we thought declining areas would have larger losses. (But) you have no larger losses than any other place in the U.S. If you're declining, it's because you're not replacing your losses, not because you're losing more."

"We've created 36 million jobs in the American economy in the last 20 years and not one of them is in manufacturing,"

Manufacturing vs. Services

The jobs that are replacing the lost jobs represent a shifting of the economy away from a manufacturing-based economy towards a services-based economy.

"We've created 36 million jobs in the American economy in the last 20 years and not one of them is in manufacturing," Birch said. "We employ fewer people making things today than we did 20 years ago."

Birch's figures show that we are moving away from being a nation of makers, in terms of employment. Only nine percent of the U.S. work force is employed in factories and only 1 1/2 to 2 1/2 percent grow things.

Birch defined this new orientation as a "thoughtware economy, an economy based on

* Editor's Note: What follows is a detailed summary, including excerpts, of Dr. Birch's presentation. Transcripts of his remarks are available from the Montana Dept. of Commerce.

Dr. David Birch (c.), small business researcher from the Massachusetts Institute of Technology(MIT), responds to a question from the Montana media at a press conference with Montana Governor Ted Schwinden (l.) and Paul Schmechel(r.), chairman and chief executive officer of the Montana Power Company. (PHOTO BY PAULA M. WALKER)

thinking and innovation rather than on muscles and dexterity." To understand the role of innovation in creating new jobs, one must distinguish between the creation of new technology and the application of technology, he said.

The *creation* of new technology, e.g., high tech firms, represents a small percent of new jobs compared to the *application* of technology for a variety of uses. High tech employs only about 2.8 percent of workers in the U.S., whereas the application of technology is creating virtually all of the jobs these days, Birch said. Many of those applications are occurring in the old, mature mining and manufacturing sectors, such as steel, textiles, clothing and nonferrous metals. Birch mentioned a steel company in Nebraska that is delivering irrigation pipe to farmers more cheaply than the Japanese can by using modern, innovative technology.

But, he said, many of the older industries are declining too quickly for such technological applications to make a difference in employment levels. They are essentially a stopgap measure for those industries.

Most of the growth created by the application of technology is occurring in companies where the end product is not hardware, e.g., computer software, finance, education, data bases, insurance, health care, consultants, telecommunications.

Exporting Services

While in the past, the U.S. has focused on exporting merchandise and hard goods, "high-end" or "producer" services are also conducive to exporting. Said Birch, "We export about $70-$80 billion a year worth of these services for, until very recently, a net positive balance of payments of about $40 billion. Until recently, our service exports, our thoughtware exports... were offsetting our merchandise deficit. Essentially what we're doing is selling our brains to the world rather than selling our muscles to the world."

Service Jobs

Birch cautioned the audience not to write off service jobs as low-paying, unskilled jobs. He pointed to a study of Minnesota firms that started up between 1979 and 1982. The study found that service firms were the largest group of new firms formed and that they employed higher-skilled people and paid higher wages than the new manufacturing jobs. The study also found that the new firms exported almost as much out of Minnesota as they sold in Minnesota and that 2/3 of those exports came from service companies.

"It's very important... to distinguish good from bad service jobs and not to label service jobs per se as low-paying, bad jobs," Birch said.

Telecommunications and computer technology are, however, leading to a major change in the way people are used in the service sector. Innovations such as computer programs that perform medical diagnoses, do chemical analyses and solve complex equations are leading to a significant decrease in employment in those fields. Break-throughs in the field of artificial intelligence have produced a machine that understands 10,000 spoken words in context and can replicate them on paper using correct grammar, spelling and punctuation.

"This machine," said Birch, "is capable of understanding virtually every word spoken by an American business executive and translating it into written form with all the corrections made along the way."

Merrill Lynch, which laid off 2,800 people last year, and the decline of employment in insurance companies, which were sources of high growth in the '60s and '70s, are a few recent examples of how these changes are affecting companies.

"There is another major shift coming in the use of people in the service sector, much as there was a shift in the use of people in manufacturing due to robotics and a shift of people in agriculture due to the combine and the automation within the food processing industry," Birch said.

Entrepreneurial Explosion

The advent of a thoughtware economy is causing a huge explosion of small companies throughout the country. Between $35-40 billion of new capital is flowing into young, growing

companies, Birch said. In 1950, 90,000 new companies were incorporated each year in this country. By 1975, it was up to 300,000. Today, there are more than 700,000 new incorporations each year. In addition, there are about 300,000 self-employed people and 400,000 new partnerships each year.

Birch stressed that the growth is nearly all in companies with fewer than 100 employees.

"New entrepreneurial companies are creating virtually all the jobs in our economy," he said. In the late '60s and early '70s, firms with 100 or fewer employees created about 80 percent of the jobs. From 1980-82, firms with fewer than 100 employees gained 2.7 million jobs while firms with more than 100 employees lost 1.7 million jobs.

This phenomenon has left the Fortune 500 companies particularly vulnerable, Birch said. Since 1980, they have lost 2.2 million jobs, while small, growing companies have created 11 million jobs since then.

"The larger companies, which used to be the secure employers, which used to be the bulwark of the economy...are very fragile. They're very vulnerable," Birch said. "One-third of the Fortune 500 companies in 1970 was not on the list in 1981 and 30 percent of the 1970 Fortune 500 had vanished by 1981. Job security in the Fortune 500 is significantly less than job security in young, growing companies in America today."

Entrepreneurial Companies vs. Income Substitution Companies

In focusing on the growth of small companies, Birch made an important distinction between entrepreneurial companies and income substitution companies. Referring to an article in *Northern Lights* magazine, Birch said the difference between the two is the difference between making a living and making money.

"If you want to earn a living then you start up a small business. You get two or three employees and you stay at that level forever." Birch said. "If you want to make money... you start with three employees and you attempt to make that into 3,000 employees as quickly as possible."

About 90 percent of the new companies are income substitution companies—the kind that is just earning a living. The other ten percent—the entrepreneurial companies—are the ones that are creating virtually all the jobs.

"It's not whether or not you have a lot of small businesses that count; it's whether or not you have a lot of entrepreneurial businesses that count," Birch said. "Therefore, the climate for entrepreneurial businesses is what's crucial to whether or not you grow or decline in the next 10-15 years."

Montana's Economy

The turbulence in Montana's economy surpasses that experienced by other areas of the country. Dr. Birch found that Montana has done poorly in replacing the jobs that have been lost as the state has moved away from mining and manufacturing towards an economy based on trade and services.

"In the last 30 years,... you've expanded your job base by about two-thirds, and you employ 600 fewer people in manufacturing today than you did 30 years ago," Birch said. "You employ half as many people in mining as you did 30 years ago. You are going through a transition, which has you down to only about four percent of your work force actually working in factories and only two percent of your work force working in mines of all kinds."

Job Gain and Loss from 1981-85

As in other states, Montana's growth can be attributed to small companies. Firms with 20 or fewer employees created 6,200 jobs while large firms lost 4,000 jobs for a net gain of about 2,200 jobs. Virtually all the new jobs were created by "home-grown," local companies—3,700 in all—while firms whose headquarters were out of state cost Montana 1,500 jobs.

Nearly 42,000 total new jobs were created by the start-up of new companies, but those gains were offset by the closures of old companies, which cost the state nearly 43,000. About18,000 jobs were gained from expanding existing companies, but those gains were offset by the loss of about 15,000 jobs from cutbacks and lay-offs by existing companies. In Dr. Birch's sample, mining and manufacturing companies lost 5,300 jobs while trade and service businesses gained 8,200 jobs during the same period.

"You are going through a transition, which has ... only about four percent of your work force actually working in factories and only two percent of your work force working in mines of all kinds."

Guest speaker Dr. David Birch tells participants that Montana is "a state of enormous untapped potential." (PHOTO BY CORT FREEMAN)

You're... running a Civil War here. You're spending your time conquering each other, rather than conquering the world.... And the world is taking advantage of you or, worse still, passing you by."

Growing Companies

Although the Cognetics analysis identified 256 significantly growing companies in Montana, Dr. Birch said that was not nearly enough to replace the number of jobs being lost.

"The very process that's creating growth everywhere else in the United States is not occurring here in the extent it should," he said. "Your 256 companies should be more like 2,000 if you're going to be competitive."

Of the 50 states and the District of Columbia, Montana ranks 47th in the number of significant start-ups occurring in the past four years. It ranks 50 out of 51 in the number of young companies that grew significantly during that time.

"You are about the least entrepreneurial state in the United States," Birch concluded.

But Montana is not alone in its paucity of new, growing companies. Of Montana, Idaho, North Dakota, South Dakota and Wyoming, three of those five states rank in the bottom five in business start-ups, and all five states are in the bottom six in terms of the odds that a young company will grow.

"The Deflation Belt phenomenon is in fact a real phenomenon, and it reaches out beyond your boundaries," Birch said. "It affects the whole environment in which you sit."

Internal Civil War

Birch said he was struck by the amount of strife Montanans engaged in among themselves. He compared it to the bitter busing controversy that wracked Boston for 10 -15 years, consuming political energy and diverting attention from the fact that Boston's school system had deteriorated to the point that today it can't produce a literate population.

"Much the same thing is happening here," Birch said of the state's internal struggles. "You're sort of running a Civil War here. You're spending your time conquering each other, rather than conquering the world.... And the world is taking advantage of you or, worse still, passing you by."

Moreover, the endless debates between such factions as environmentalists vs. extractors; primary industries vs. derived industries; resource-based taxes vs. consumption taxes etc. are largely irrelevant to the type of economy into which the state and the nation are moving, Birch said.

He said Montana's internal struggle suggested a quote by James Reston: "The history of mankind is strewn with habits, creeds and dogmas that were essential to one age and disastrous to another."

Recommendations for Improving Montana's Economy

1. Consider developing a highly targeted approach to adding value to the resources you pull out of your ground.

2. Recognize "distance-independent companies" for what they are in terms of how well they do in remote areas. Pay attention to telecommunications, which is the key resource they require.

3. Promote tourism much more heavily, especially Glacier National Park.

1. Value-Added Processing

An analysis Birch did of the nonferrous metal industry showed that Montana and the entire Mountain West fared poorly in terms of the number of significantly growing companies that added value to nonferrous metals through mining, processing and minerals development. He defined the Mountain West as virtually all of the Western states except California and Arizona.

The analysis discovered 283 rapidly growing nonferrous metal mining companies in the United States. Only 34 of those were in the entire Mountain West; only two were in Montana. Of the 505 rapidly growing processing firms in the country, only ten of those were in the Mountain West. Only one was in Montana. There were 117 rapidly growing minerals companies in the United States; 15 of which were in the Mountain West. One was in Montana.

"In short, you are adding virtually no value to the raw materials which you have historically made a living from by extracting them here in Montana," Birch said. "All of the growth to be gained from nonferrous metals and minerals is in the processing stage, and you are doing virtually no processing of your own raw product, which is, I think, very damning."

Although he has not done such analyses of timber and agriculture, Birch said he expected a similar pattern would emerge.

"You are essentially being treated like a Third World nation by the rest of the United States, and being exploited very, very badly," he said.

2. Distance-Independent Companies

Birch distinguished between "distance-induced" companies, which do well in Montana and "distance-independent" companies, which generally do well in remote areas, but have not done well in Montana. Distance-induced companies, such as trucking, wholesaling, broadcasting, hotels and lodging, are growing well in Montana because they exist by virtue of the fact that Montana is so far from everything. Consequently, the services provided by these firms must be provided on a large-scale.

Distance-independent companies, on the other hand, do not consider distance from markets a liability and consequently do well in remote areas.

Specialty food companies, such as Ben and Jerry's Ice Cream in Vermont; mail order companies, such as L.L. Bean in Maine; computer and data processing firms and consulting firms are kinds of distance-independent companies that have succeeded in remote areas. Montana has few of those types of businesses.

Excellent telecommunications systems are essential to the success of distance-independent companies because they must eliminate the distance liability.

"And the thing that eliminates the distance liability is something that can travel 186,000 miles a second, known as electricity and radio signals and telephone transmissions," Birch said. "Telecommunications is the pathway over which this part of the economy flows, and good telecommunications is absolutely crucial."

"You are essentially being treated like a Third World nation by the rest of the United States, and being exploited very, very badly."

3. Tourism

"You have one of the most spectacularly beautiful places in the world," Birch said, "(but) I think you are largely neglecting your tourism as an industry. It's a renewable resource; it's a non-polluting resource."

Tourism has been the state's major source of growth since 1980, yet Montana has by far the lowest expenditures on tourism promotion of any state in the United States, he said. By contrast, Canadian provinces spend millions of dollars promoting Calgary, Vancouver, Expo and other destinations.

"From my point of view, you are enormously undercapitalizing that resource," Dr. Birch said.

According to him, tourism is becoming the second or third largest industry in the United States. Such factors as an aging population; deregulation of the airlines; a decrease in the work week and the number of weeks worked a year, and higher incomes are fostering tremendous growth in the tourism industry across the country.

Birch noted that nothing in the vast amount of written material sent to him by the conference organizers mentioned Glacier National Park.

"The words never appeared, and yet it's one of the great natural resources of the country. You don't even talk about it. You don't even acknowledge its existence," he said. "Everybody in the world knows about Glacier National Park, and you don't even admit to having it, which I find very, very disturbing. My suggestion is, do something about that."

How To Encourage Entrepreneurship

1. Focus more on university-based research.

2. Provide entrepreneurial support; focus attention on small, growing companies.

3. Improve telecommunications in the state.

4. Initiate major retraining of Montana's existing work force.

1. University-based Research

University-based research is "by far the most important ingredient that you have to work on," Birch said. The key to revitalizing Montana's older companies lies in new applications of technology, and the universities are where those new applications are likely to be developed.

"In a thoughtware economy, the key natural resource is brains," he said. "Innovation flows from research and entrepreneurship flows from innovation in a very clear, logical chain."

Birch praised the Idaho National Engineering Laboratory as an excellent place to conduct innovative research, but said few people in Montana and the region seem to know about it. A multi-million dollar facility, it is concentrating considerable time and effort on raw materials processing technology, including the production of sophisticated metals, wood products and food products.

"It's a facility that nobody in any state in the mountain area could possibly replicate by themselves in any of their universities," he said. "They have 40-50 rooms with equipment of incomparable value that is devoted to upgrading the use of natural resources."

East Cambridge, Mass., where Dr. Birch's firm Cognetics was initially located, is a prime example of how university research can stimulate economic growth. "East Cambridge, that two-thirds of a square mile, has created more jobs since 1980, than the five states that are you and your neighbors," he said. "It has created more jobs than 13 states, including Illinois and Pennsylvania. In fact, it has created more jobs than the entire Common Market of Europe. This one little two-thirds of a mile is living off the university research-to-innovation-to-entrepreneurship stream. It's an extraordinary example, but a very successful one."

2. Entrepreneurial Support

"You are at the bottom of the entrepreneurial barrel at this point," Birch stated. "It just doesn't get any worse anywhere in the United States. Your bright people are leaving, rather than starting businesses."

Maxine Johnson, director of the University of Montana's Bureau of Business and Economic Research, wrote that the single largest export out of Montana could well be bright people within 10-15 years."I think that was very telling," Birch said.

In order to encourage young people to stay in the state and become entrepreneurs, Montana must exhibit a positive, supportive attitude toward entrepreneurship, Birch said. It must demonstrate

to young people the positive aspects of starting one's own company.

Support for entrepreneurship begins at the universities with research.

It flourishes in universities that encourage faculty members to play a significant role in economic development. It is brought to the public's attention when public officials highlight the successes of young, growing entrepreneurial companies.

Dr. Birch described the efforts of Massachusetts Governor Michael Dukakis in focusing public attention on small, growing companies. By taking delegations to visit those companies and by inserting into his State of the State Address a slide show featuring the successes of those firms, Gov. Dukakis has transmitted the image of a healthy entrepreneurial atmosphere to people both in and out of Massachusetts.

Dr. Birch encouraged Governor Schwinden's efforts to support entrepreneurship in Montana, saying it is one of the few things state government can do to promote economic development.

3. Telecommunications

Good telecommunications are absolutely vital to a remote state like Montana. The state should be equipped with a totally digital telephone system because it offers so many more telecommunications capabilities than a step-by-step, electro-mechanical switching system, Birch said. Package-switching networks and satellite connections are also essential telecommunications technology for a state that wants to have a competitive economy.

Memphis is a good example of how telecommunications can revitalize an economy, Birch said, noting that more "800" numbers and WATS calls go in-and-out of Memphis than any other city in the South. Its telecommunications facilities have attracted such companies as Federal Express and Holiday Inn, which have headquarters there.

4. Retraining

Because Montana's economy is experiencing much turbulence with the number of jobs lost and the potential for entirely new kinds of companies to start up, retraining of Montana's work force must be an essential part of Montana's economic transition.

"It's very important to an entrepreneur that you have properly trained people—people who can do what the entrepreneur needs done, not what they used to do," Birch said. "The evidence suggests that you're going to need re-skilling very badly."

One out of every five Americans leaves his or her job each year, and one out of ten Americans is fired and must seek employment elsewhere. That means 20 million Americans are turning over in the work force each year. Major retraining of the existing work force is necessary in order to prepare Montanans for the jobs that will be available in the upcoming years.

"You have one of the best education systems in the country; the Department of Education ranks you second," Birch said. "You ought to think carefully about directing that system, not so much at producing high school and vo-ed graduates, but at the retraining of the 40,000 workers that were lost by companies that went out of business and have to relocate into the 40,000 new jobs that were created by new businesses in your state.

"That's a massive retraining and retransfer role," he said. "And if you don't do that, those people will leave to find training and employment opportunities elsewhere."

"You have one of the best education systems in the country; the Department of Education ranks you second. You ought to think carefully about directing that system...at the retraining of the 40,000 workers that were lost by companies that went out of business and have to relocate into the 40,000 new jobs that were created by new businesses in your state."

Question and Answer Session

(Excerpts)

Q. Could you recite some examples of success in tourism that Montana might parallel given the type of topography and region we're in?

A. Birch: The best example is Alaska. You certainly can't claim to be harder to get to than Alaska, although Butte is not necessarily the easiest place to get to. Alaska has done an excellent job with a very large budget and a very creative ad campaign to put Alaska as a destination on the map.

Orlando, Fla., has now become the largest destination airport in the United States. The Disney people have done a magnificent job of promoting Orlando, Disney World and their facilities. And frankly if you were to stack Glacier National Park up against Disney World, it isn't even close. Disney World is kind of a dump; Glacier National Park is a magnificent place.

The Canadians do a much better job of tourism promotion than we do in the United States. There's an "800" number you can call from anywhere in the world that will allow you to reserve bed and breakfast facilities anywhere in the maritime provinces anytime you want. Do you have an "800" number which allows anybody to call Montana and make a reservation anywhere in Montana as a vehicle of extending your hand in a friendly welcome to somebody who wants to come here?

At a press conference, Governor Ted Schwinden(l.) describes the need to encourage new businesses in the state as keynote speaker Dr. David Birch(r.) looks on. (PHOTO BY PAULA M. WALKER)

Q. Is there a future for the copper mining industry?

A. Birch: I don't see any reason why the copper mining industry couldn't do what the steel industry is doing. I understand that some interesting things are happening in the old Anaconda facilities right here in Butte now. That's to say a new, smaller, perhaps a little more progressive company in terms of profit-sharing and stock ownership on the part of the employees... is coming in and beginning to mine copper here again. But by far the greatest promise offered is in the processing of metal rather than in the extracting of it. You are virtually processing none of your own metal. There are technologies down at the Idaho National Laboratory for doubling and tripling the strength of nonferrous metals.

If you could capitalize on that and double or triple the strength of copper,... you could make all sorts of new products and all sorts of new applications, and a bunch of young companies could spring up around doing that.

I think going back to doing it the way you've always been doing it, you don't have a snowball's chance in hell. It's a question of the degree to which you stand ready to invest in innovation, support innovation, support entrepreneurs who want to innovate. I think you have tremendous opportunities there.

Q. Entrepreneurial support depends on high risk capital. There's not much available in Montana. Do you have any suggestions for getting some?

A. Birch: There's more than you realize. (Venture capital company investment) represents no more than an average of $1.5 billion a year invested in the United States. We are investing about $40 billion a year in new growing companies so you've got to ask, 'Where's the rest of it coming from?' About 90-95 percent of risk capital is coming from private individuals. I call it 'Love Money.' It's coming from people who love you—your grandmother, your mother, your father, your wife's father.

Everybody I talk to... says there's no lack of money—that there's a lack of good ideas. There's a huge surplus of money wanting to be invested at this point.

The fact that you don't have a formal venture capital industry is of no consequence. There's a lot of private wealth in Montana...and there's private wealth throughout the Northwest of substantial proportion, all desperately looking for something to do.

Also, there's a lot of cash flow in successful young companies that tends to seek out other young companies to help. There's a lot of buddy system going on here, mainly because the IRS says if you don't unload your cash for some useful purposes, you're going to have to hand it back to your shareholders.... As a consequence, many young, successful, growing companies become venture capitalists for the next crop.

Q. Rep. Harry Fritz: Your recommendations seem to call for some vigorous state governmental activities. Lester Thurow argues that a state is responsible for only a very small percentage of the economic potential or development. Do you differ with him? And am I right that we need some vigorous governmental activity?

A. Birch: Bear in mind, I'm not talking to the government of Montana, per se. I'm talking to the state of Montana. Les' point is that the state government can affect only about 10 percent of the job base. And that's probably right in terms of direct programs the state can initiate.

There are two roles the state can play. One is...focusing media attention on these little companies that nobody would see otherwise and making them seem important. (That) sends out a very important signal to every bright young person in Montana as to what a potential career might be. It's capturing their imagination that's important. The other one is in the education area. Beyond that... subtle differences in taxes or subtle differences in this or that probably don't affect more than about 10 percent.

But on the other hand, the corporate population of Montana and the banking community of Montana and the telecommunications community of Montana, all of whom are represented here today, can affect a significantly greater percentage than that—through their activities, their limited partnerships to get involved in funding new processing technology, through their collective promotion of the state of Montana as a tourist destination, through their joint support of the university system. They're all here today, so from my point of view you have much bigger than 10 percent to play with if you think about the entire audience in the room.

"I think going back to doing it the way you've always been doing it, you don't have a snowball's chance in hell. It's a question of the degree to which you stand ready to invest in innovation, support innovation, support entrepreneurs who want to innovate."

Q. Jim Murry: In 1984, you talked to the U.S. Conference of Mayors and you suggested that cities should emphasize their livability to attract businesses engaged in the thoughtware concept. You...admonished those leaders to stop cutting taxes and services in order to develop a better living environment to attract the educated kinds of people that you need for this kind of development. Does that also apply to states?

A. Birch: I think so. Bright, entrepreneurial people, creative people who are going to create new companies...like pretty places. There's a direct correlation between taxes and growth in the United States. The highest taxed places are growing the fastest. The places that are taxing the most and providing the best environment are outgrowing the places that are taxing less and providing less supportive environments. That is true on a city basis, and it's probably true on a state basis.

It's using tax money to create good environments, good transportation, access to Butte from someplace else in the world, dealing with the quality of the roads to make sure that they're adequate and well-surfaced.

The idea of eliminating taxes in order to avoid those things empirically would be a mistake. I come from a state called Taxachusetts. If you've got a tax, we've got a worse one with the exception perhaps of coal... But all of our growth in Massachusetts...took place in one of the worst tax environments in the country, which means that at a minimum, bad taxes don't make much difference. But on a positive side, a place that taxes well and provides education and provides good roads and provides good air service will perform better than a place that does not tax and does not provide those things.

Q. Rep. Tom Asay: Are you saying there is no correlation between taxes, the type of taxes, the quality of taxes across the board?

A. Birch: Not much. Not for those 10 percent of the companies that are creating most of the entrepreneurial activities.

Q. Asay: You're not talking about natural resource type taxes.

A. Birch: Obviously, it makes a difference to a capital-intensive, resource-intensive business.... All I'm saying is, you only employ two percent of your non-agricultural work force in mines and four percent in factories, and 94 percent of your jobs and 100 percent of your growth is in industries in which those tax debates are irrelevant. ... If anything, you ought to pay more attention to the needs of where your strength is coming from and your growth is coming from and perhaps their tax needs rather than getting involved in this, in some cases, very bitter dispute over resource-oriented taxes. It just doesn't make a lot of sense to me.

Q. Steve Browning, chairman of the Montana Science and Technology Alliance Board: One of the investments that we made at the Science and Technology Board was to fund a venture capital network seeking to identify more people in Montana who are interested in making risk investments. It's been our experience...that the kinds of funds that you have identified as being available in Montana may not be as readily available as one might originally think, perhaps because we have not had the successes. It's our preliminary judgment that there seems to be a substantial shortage of venture capital. Certainly we don't have any organized investment funds... I think this is an area that is really worth a substantial study of public policy in Montana.

A. Birch: A venture capitalist will not put money into a company that he doesn't think is going to have at least 500 employees....He invests in something that will have at some point 500 employees or at least the prospect of 500 employees. No venture capitalist in his right mind would invest in a black-owned entrepreneur as a network of things to invest in because there are no success stories. If only one out of 100,000 succeeds, you can't run a venture capital company on one out of 100,000. You've got to hit on one out of ten. And to statistically demonstrate that you can hit on one out of ten, you've got to have at least 1,000 going.

So, if you're having problems getting venture capital, it's because you have, of any place in the nation, the least tradition of these young companies—you're 50th out of 51—having the success stories that venture capital is attracted to. So I'm not surprised that you find that the formal venture capital industry is tough to penetrate. It's got lots of opportunities elsewhere where the success rate is demonstrated. ... It's a chicken-egg problem, and I think you've got to push in exactly what you're doing and hold up those ten success stories. I think your job will become 50 times easier.

Q. Gov. Schwinden: The one area in the state, which over the last 12 or 18 months has evidenced...the highest level of optimism and, in terms of substantive growth, is probably the area which was hurt first and hardest by the impact of the changing economy, is the one we're in right now. Is there a relationship between the degree of damage done by the global economy and the ability to make the political decisions, because the political institutions in a sense begin to fall apart? And the historic determination to protect everything that's there is stronger in those areas that don't feel it as badly because the retention of jobs outweighs the ability to seek new ones?

A. Birch: One of the fascinating things that we've observed over the last 15 years across America in different places is that economic catastrophe—it's sort of like the best thing that can happen to a forest is to burn it in some cases, that the burning of the field and the burning of the forest produces the fertilizer and the nutrients to rebuild a much healthier field or forest. The same thing seems to be happening in economies that we've observed very carefully.

...And I think the same thing has the potential for happening here. That's to say, if it gets bad enough, and you lose enough of those jobs, and you have the opportunity for people wanting to stay in this beautiful state almost in desperation starting to do things, which four, five, six years from now will pay off very handsomely for you. And you're beginning to see that happening. You're beginning to see your university-oriented parks. You're beginning to see bright companies, some of whom are here today, starting to do things.

This wonderful thing about...getting back into the copper mines again.... represents one of the greatest opportunities in the history of Montana, to go back into that mine and start making something useful out of it.

So out of the seeds of catastrophe comes recovery. ... You have great potential for that. You as a Governor and the state Legislature have a great opportunity in this time of adversity that you might not have in a time of prosperity when everybody says, "If it ain't broke, don't fix it." It's broke. Now's a great time to open up the doors and accomplish things under the guise of fixing it. What you're not really doing is fixing it, what you're really doing is just assisting the process of natural recovery in a useful way.

"So out of the seeds of catastrophe comes recovery. You ... have a great opportunity in this time of adversity that you might not have in a time of prosperity when everybody says, 'If it ain't broke, don't fix it.' It's broke. Now's a great time to open up the doors and accomplish things under the guise of fixing it."

Q. Dan Regan: I'd be interested in listening to your analysis of the less entrepreneurial states—North and South Dakota, Wyoming, Idaho, Montana. Is there a story there? Is there a reason why these five states are having problems? Is it because we're all thinking in the same way, which may be wrong? Or that there are some geographical or economic factors that we all have in common? If there is a commonality of problems, can we work together to overcome them?

A. Birch: You all have 150-200 years of being resource-based. You've all thought that resources were the way you did things. Those were your paradigms, your dogmas, your habits, your traditions, your everything. And all of a sudden, the world is changing. The global world, totally out of your control, has changed underneath you. And you're all scrambling with some way to recover. ...the whole U.S. economy is going through a major transformation, like the one that happens about every 150 years. And every place in the United States is sort of going from a caterpillar into a butterfly at one point or another. Every place in the United States has to go through a very painful transformation. It's now happening in this collection of states in a very obvious way. I think there's a perfectly good opportunity to come out the other end as a butterfly. I don't think you're unusual in going through this transformation, but it definitely requires change.

Dr. David Birch explains that the country is moving towards a "thoughtware economy" ... based on thinking and innovation, rather than on muscles and dexterity. (PHOTO BY TONY DI FRONZO, JR.)

Q. Richard Hammen: I am an entrepreneur that has arrived in the state less than a week ago from California....I've had a marvelous opportunity with the facility that I am setting up. But the thing I've experienced in the last year—which is a bit of a casepoint for other folks that might be trying to follow this path—is some of the resistances that I have had to overcome.

What I'm finding here in Montana is that we don't have faith in ourselves that we can create a new high-tech entrepreneurial company in this state. The perception that I've had as I've shopped my business plan around the state widely is that it must not be a very good company if it's going to come here to Montana.... And so it's a curious thing that everybody pats us on the back—"atta boy, it's the kind of thing we really need in the state," but yet I find that the people who make the decisions, the business angels ... in the state were terrified of something of my sort.

A. Birch: You're such a fluke that you're viewed as a freak, and freaks are dangerous.... The only way to get around that is for you to be the pioneer and take all the heat, and then after 10 more people come along and take the heat, the 10 that come after the first 10 will have it a lot easier than the first 10. Our statistics suggest that you're a real freak. It isn't that you're wrong—it's that Montana is wrong. The rest of the United States is involved in this process much more aggressively than Montana is and you're just taking all the punishment. But I'm glad to see you're here. If there were 20 more of you, it would make the 21st a heck of a lot easier.

Q. Relating to tourism promotion, what would you recommend be the primary sources of revenues for a state such as Montana for promoting tourism?

A. Birch: I think it's just got to come from the state.... All the programs I know about are funded by the states... It's one of those cases in which the state has got to toot its own horn and in which the innkeepers and all those people collectively are tight on business as it is. They should be able to contribute somewhat to that, but I don't think you can expect them to produce anything like the magnitude of dollars that are required in today's television world to do the job. You can't go at it nickel and dime. You're talking millions of dollars to do it right. And the return pays for itself....So it's a good investment and it's a big investment. It's one I think you have to fund out of the state. And it's one I'd be willing to raise taxes to do.

Afternoon Discussion Groups

Agriculture

Facilitator: Marilyn Wessel

Recommendations and Conclusions

1. The traditional independence of farmers and ranchers will be much less desirable in Montana's second hundred years. Montana farmers and ranchers, particularly family farmers, should consider partnerships to survive hard times.

2. Farmers and ranchers have a stake in business development in Montana. Agriculture needs a healthy mix of businesses in the state.

3. State government should be more deeply involved in research and technology development for agriculture. More state funding, not less, should be applied to research in: a) short-term direct assistance for farmers with a specific problem, e.g. disease in their crop or herd; b) long-term research on value-added processes to create new agricultural products that are more valuable, marketable and salable. Examples include: developing livestock with unsaturated fats; developing a strain of barley that guards against heart disease; establishing an embryo transplant laboratory that would put on the international market the fine strains of animals currently being raised in Montana.

4. Research and development requires a long-term commitment and patience; Montanans should anticipate a ten-year horizon for research activities.

5. Maintain a high level of quality in agricultural products; do not sacrifice quality to quantity for the federal farm programs.

6. Miscellaneous recommendations for funding of increased agricultural research efforts: a) fewer counties needed in Montana; b) fewer school districts needed in Montana; c) consolidate state government agencies to free up state funds.

7. Telecommunications can be used more effectively to get research detail from the campuses and from industry to the farmers and ranchers in the state.

8. Although no one expects agriculture to bounce back to 1979 levels, small hints of optimism are evident, e.g., renewal of interest in buying land in Montana, particularly from out-of-state buyers.

9. About 1/3 of farmers and ranchers are depositors in banks and are doing well; 1/3 borrow on a seasonal basis and pay loans back when crops or stock are sold, and 1/3 are in financial trouble. It will take three-to-five years to work out those problems.

10. Guard against complacency in the event of a recovery. It should not prevent agriculture from making fundamental changes and initiating improvements such as value-added research.

Comments by Transition Business

Ted Neuman (Dairy farmer and state senator from Vaughn)— What can the individual operator do to make his operation a little more viable?

Some observations based on my experience:

- Time lines for grains, planting, cutting hay, calving. Stick to them. When it comes time to do these things, they must be done to the exclusion of everything else. Too many farmers are procrastinating.
- Labor component is important. Employees used to come and go frequently; now I have eight people who believe in the work ethic.
- Futures market forced me to be a good marketer. I had to follow trends and learn how the market worked.
- Pooling resources among neighbors could save farmers and ranchers time and money, given the price of equipment and availability of time.
- Good farming practices always pay. A lot of farmers and ranchers farm too much land; they are reluctant to give up parts of the farm that have been in the family for years, because they think they will never get it back.
- Crop insurance should always be carried as well as some hail insurance.

"The sooner Montana realizes Anaconda is gone, the better off we'll be. Dead, gone, buried, forgotten. Let's get on with the future of the state."

Mining

Facilitator: Nancy Scheetz-Freymiller

Recommendations and Conclusions

1. The key ingredients needed for new mining companies to succeed in the state are: innovation; creative financing; personnel and new technology.

2. Mining can be a thriving industry in Montana while maintaining a balance with environmental and agricultural interests.

3. Examine permitting process to determine if it is too cumbersome.

4. Montana mining companies can be competitive on the world marketplace if they are world-class operations.

5. Combine productivity, management, labor relations, technology and people to create world-class operations.

6. State government must provide leadership. The state should issue a philosophy statement proclaiming its commitment to developing mining.

7. Cooperation is necessary among business, labor, government, industry and the banks to overcome past confrontational attitudes.

8. Organize a group to facilitate new mining in the state. Representatives from business, labor, government and banks could meet with new mining companies to assist them with the permitting process, location and other needs.

9. Target a pilot zinc or gold processing plant in state.

10. Use Montana Tech to expand research and development capabilities. Link Montana Tech research efforts with the Idaho Engineering Lab to prevent duplication.

11. Gain public support for expanded research and development funding.

12. Review university and formula funding policies to provide incentives to faculty to conduct intensive research and development.

13. Consider new laws to encourage public/private sector partnerships in research.

14. Examine how Montana's property tax structure impacts mining.

15. Provide incentives for small prospectors. Examine regulations to ensure small prospectors are treated fairly.

Comments by Transition Businesses

Alan Richardson (Montana Tunnels Project, Pegasus Gold Corp.)

•With the permitting and environmental impact necessity in the early stages of starting a mine. We gambled a lot during that time.

•Going through the state process in two years is fast-tracking.

•Montana is second only to Nevada for mineral attractiveness.

•Bureaucrats make environmental laws more difficult. When they get a hold of them, they interpret them any way they want.

•The Hardrock Mining Impact Act is a massive disincentive to investment in mining projects. It requires the developer to pay all the mitigating costs. We spent $0 on mitigating impacts, but $200,000 on consultants' fees (to determine if there were any impacts to mitigate). Take that act off the books.

Ray Tilman (Montana Resources Inc.)

•The sooner Montana realizes Anaconda is gone, the better off we'll be. Dead, gone, buried, forgotten. Let's get on with the future of the state.

•Montana Resources, Inc. has a totally different philosophy. It offers good salaries and profit-sharing for employees. Costs will be shared with the community.

•The productivity of our workers is incredible. It's so high we don't need as many people.

•The community, especially the Mining Task Force, got behind the project.

Alan Richardson, of the Montana Tunnels Project of the Pegasus Gold Corp., discusses his company's experiences in setting up a gold mine in Montana. (PHOTO BY CORT FREEMAN)

Small Business, Manufacturing and Technology

Facilitator: Larry K. Hannah

Recommendations and Conclusions

1. A dedicated source of revenue is needed in order to fund tourism promotion efforts on a long-term basis.

2. Montana should create Centers of Excellence within its universities. They could be funded either publicly, privately or receive some combination of both public and private funds. Types of Centers of Excellence to consider developing are a) Science and Technology b) Entrepreneurship c) Public Television.

3. Consider closing one or more units of the University system to save money.

4. State government does a good job of extending a friendly hand to people who may wish to locate in Montana. Continue those efforts.

5. Although some dollars are available for investment, there is a lack of risk capital available in large quantities in Montana. If more identifiable pools of risk capital were available, more development would occur.

6. The status quo in Montana receives mixed reviews.

7. Regulations and attitudes have a cumulative effect on the business climate in the state. Such things as the structure of utility rates and taxes can affect the business climate either positively or negatively.

8. Business and government are getting along much better than they did a few years ago.

9. Taxation should be examined more closely, including the possibility of a sales tax. Montana's current tax system resembles a patchwork; it lacks coherence.

Butte Mayor Don Peoples(r.) tells members of the mining discussion group that Butte's enthusiasm for mining does not seem to be shared by the rest of Montana. Looking on are Joe Reber(c.) of the Montana Board of Investments and Ed Jasmin(l.), president of Norwest Bank Helena. (PHOTO BY CORT FREEMAN)

Comments by Transition Businesses

Kent Williams (Montana Silversmiths)

- Transportation costs are not a problem.
- Our products (primarily western belt buckles, jewelry and saddle bridles) are wholly manufactured in Montana.
- QSD has been a buzzword at Montana Silversmiths for a couple of years now. It stands for quality, service and delivery. We do not pretend to sell cheap products.
- We just continue to grow because of our quality and productivity.
- Our most valuable asset is the employee. We offer high wages, benefit packages, profit-sharing. I don't believe Montana has a negative labor environment, and I don't see cheap labor as either a short-term or long-term benefit.
- We do not replace employees with equipment; we cross-train employees. We are constantly trying to increase productivity, but not at the expense of the employee.
- We are fully computerized. Computers are necessary to make good business decisions.
- The "Montana mystique" is an important part of our marketing. "Made in Montana" conjures up great ideas about the Old West.

Keith and Faye Woods (Woods' Powr-Grip Inc.)

- The company produces vacuum lifting devices mainly for the glass industry.
- We are product-driven. We have only one design without many spin-offs, although we do a lot of specialty work and adaptations for our customers.
- We are currently trying to break into the rental shop market.
- In 1970, the company had six employees. Today, it has more than 50.
- We also see our employees as valuable assets. We like to hire engineers right out of school because their minds are wide open. They haven't been told by anybody that it's not possible. When someone calls up and asks them to do something, they do it. They put all kinds of effort into it.
- There is a need for more management training.
- Our philosophy is the "customer is king." Customer service is important. We sell entirely through dealerships. We make no direct sales. We use WATS lines a great deal.

Timber

Facilitator: Maureen Fleming

Recommendations and Conclusions

1. Political solutions are needed to resolve timber supply problems. A comprehensive package that brings government and industry together is needed—a compromise that gives everyone something. We must stop fighting each other.

2. State government should take steps to make timber (and other extractive industries) more viable by providing rewards that help companies bring themselves back up and begin capitalizing their own mills. Changes in government regulations and incentives must be carefully balanced.

3. Economic development must be central to all state government policy-making activities.

4. Seek credible advocates for the timber industry.

5. Higher education must be a catalyst for change in the timber industry, both in the areas of education and research. The universities can be instrumental in the areas of product development and increased yields of timber supplies.

6. A political vision and consensus must be developed among the public to keep the timber industry alive. Communities should be involved in developing this consensus and helping the public better understand the timber industry's needs.

7. State government should provide leadership for timber supply problems. Even though the problems are often at the federal level, the state should be involved in resolving them. For a number of communities to survive, they must have an allowable cut that permits their mills to continue to operate.

8. Study the costs we put upon ourselves through regulations that may be self-defeating, for example, the requirement that all trains in Montana have cabooses.

9. Montanans should ensure that an adequate timber supply is available in the state before trying to attract new companies or focusing on value-added processing. The industry needs a commitment from the state to help find that reliable timber supply.

10. State government should consider making a strategic analysis of the forest products industry, including raw materials, product development, current mills, possible markets. Such an analysis might be conducted by a task force under the direction of the Governor.

Comments by Transition Businesses

Clint Grimes (Director of Wood Re-manufacturing Study)

- If you agree that one of the things you can do to upgrade the state's economic outlook is to add value to the product, the timber industry would be one place to start.
- Conducted initial research in Scandinavia where many firms make wood into a much higher-value product.
- Our theory is that we can find some technologies, designs, etc... in those places in the world where those technologies are considered state-of-the-art.
- We zeroed in on Scandinavia and western Europe to see if there were companies that had such technologies, designs, processes that would be willing to license to firms in Montana or to joint venture with firms in Montana to increase the re-manufacturing of our wood products.

Jim Schueler (Rocky Mountain Log Homes)

- Company formed in 1974.
- Raw material is a serious problem. The quality of material required to build our homes is not available in the state.
- We are currently importing our raw material from Canada. It costs considerably less.
- Market for log homes is quite large. The company is currently marketing in Japan. It took three years to develop that contract. Company is also marketing nationally. Right now we distribute to about 32 states and are going East this summer.
- We started our company with very little capital. "Love Money" was very important in the beginning. For the first four years we got money from people we knew.

Tourism

Facilitator: Francis J. Kerins

Recommendations and Conclusions

1. Take educational steps to improve tourism. Work with communities to encourage them to be hospitable and to provide services to visitors. Work with retailers to impress upon them the importance of treating tourists well.

2. Incorporate tourism material into business recruitment programs and packages.

3. Work with the people in the trenches—the people who contact tourists daily, such as clerks, maids, waiters, etc.—to educate them about the importance of tourism.

4. Exhibit optimistic and positive attitudes. With constructive, positive thinking, a great deal can be accomplished. With negative, carping thinking, nothing is going to happen no matter how much effort is put into it.

5. Project tourism in Montana as a statewide, year-round program.

6. Expand tourism efforts to include a wide range of activities such as recreation, conferences, conventions, all aspects of the industry. Too often tourism is seen as only hunting, fishing and hiking and only for certain months of the year.

7. Spend more money on tourism. Tremendously increased expenditures for tourism promotion are necessary, and they should come from state government.

8. Support a general sales tax with proportionate amounts of the tax revenue assigned for tourist promotion.

9. Initiate a total analysis, review and restructuring of Montana's tax system.

Comments by Transition Business

Dottie Maitland (Montana Leisure Inc.)

•Started four years ago as outbound tour operator taking people out of Montana to various parts of the United States.

•In the past four years, Montana Leisure has expanded to include inbound tours of Montana; conference and convention planning; incentive work for corporations who wish to reward top salespeople or conduct artistic tours; family vacations; a full-service travel agency.

•The company is continually evolving. A new project is fly/drive packages, which allow tourists to sign up for a vacation package and receive a packet full of options of things to do once they get to Montana. They are entirely on their own schedule when they get here.

•Plans for future projects include executive retreat packages; honeymoon packages; vacation packages for the disabled and breaking into the international market.

•Montana Leisure is considering establishing a conversational English school in the Flathead Valley for foreign students. If those students came over here, it could start a flow of tourists from abroad.

•Retailers and business people in the community must be educated about the benefits to the economy. They need to know how much the economy is stimulated when Montana Leisure brings a convention or a fly/drive package or a tour into the area. If a convention comes into the area, the dollars spent on it turn over seven times in the Montana economy.

•Encourage Montanans to work together to get cheaper air fares for the state. It's hard to compete with Utah for ski packages with Montana's air fares.

•Need better accessibility to recreational and other activities for people with disabilities. Involved in putting together an access guide for Western Montana, which will detail the needs of disabled people.

•Would like to see the state promote more agricultural tours, industrial tours, Montana artists, conventions and golf tours.

•Would like to be informed of quality services that people provide in various communities throughout the state so that they may be incorporated into Montana Leisure tours.

FINAL GENERAL SESSION

Conclusions and Actions

Governor Schwinden:

On the one hand we've been advised by Dr. Birch that along with a half dozen of our sister states, we are the least entrepreneurial in this great country. But to use Dr. Birch's words in response to one of the questions, we are a state which has enormous untapped potential.

I find room for substantial optimism because... we have developed some momentum.

What I would like to do is follow up this conference with a secondary effort to maintain and to expand on the momentum that hopefully we put in place here today and to create within our state a relatively small group of leaders in the business and academic and governmental areas.

I've asked Bob Kelly from Champion International on the west side and Dr. Lindsay Norman from Montana Tech to join with me and over the course of the next couple of days share with me or Mr. Colbo the names of 10 or 12 individuals...who would draw upon experience in the areas of manufacturing, mining, agriculture, timber, tourism, finance....

The three of us will try to identify at most 12 individuals that would be a kind of transition task force—transition in two senses. One, that it's almost impossible to leave here today without accepting in large part the assessment of Dr. Birch that, like it or not, this country and this state are caught in the midst of a once-a-century kind of revolution in our social, political and economic lifestyles and mores. If we're going to have this kind of economic turbulence in the future, we're going to have to have the mechanisms to deal with them.

This small task force over the next few months would put together from what we've heard here today, what we hear from our neighbors across the state of Montana, from critics both from within and without the state and from our own inspiration, if we have some, a kind of strategy for transition.

"I hope within 100 days... to have on paper a draft growth strategy. One hundred days is not a long time, but for those of you who remember the 100 days of the New Deal in 1933, you know that those 100 days changed the course of this country forever."

Two, the task force also represents an opportunity to put in place potential recommendations for legislative or administrative or symbolic changes in the state of Montana before next year.

I hope within 100 days, by Nov. 10, to have on paper a draft growth strategy. One hundred days is not a long time, but for those of you who remember the 100 days of the New Deal in 1933, you know that those 100 days changed the course of this country forever. I am certainly not suggesting that we can emulate the experience ... of that dramatic period of political change. But FDR said something that seems to sum up what Dr. Birch and many of you have said today. FDR said something in 1933 that makes sense today: "Let's do something."

Participants

George Anderson, Anderson ZurMuehlen & Co.
Al Bell, Metco Kenworth, Inc.
Buck Boles, Montana Chamber of Commerce
Dick Bourke, Development Corporation of Montana
Gary Buchanan, Merrill Lynch
Ken Byerly, Lewistown News-Argus
Jim Christianson, Montana Wheat Research & Marketing Committee
Bill Coffee, Missoula Job Development Corporation
Keith Colbo, Montana Department of Commerce
Ian Davidson, D.A. Davidson & Co.
Jeff Demetrescu, Mansfield Foundation
Al Donohue, Heritage Inn
John Etchart, Burlington Northern, Inc.
Mike Felt, Crop Hail Management
Allen Fetscher, Darby Lumber, Inc.
Don Gustofson, MSU Alumni Foundation & Technical Park
Dr. Richard Hammen, ChromatoChem, Inc.
Raymond Hart, Hart-Albin Company
Ken Hickel, Best Western Ponderosa Inn
Ed Jasmin, Norwest Bank—Helena
Earl Johnson, First Bank—Helena
Maxine Johnson, Bureau of Business and Economic Research, UM
Bob Kelly, Rocky Mountain Affairs, Champion International
Don Leuschen, The Montana Power Company
Bill Martin, Big Mountain Resort
William Merwin, Northern Montana College
Jim Murry, Montana AFL-CIO
Alan Nicholson, Nicholson, Inc.
Dr. Lindsay Norman, Montana Tech
John Orth, Montana Energy Research & Development Institute, Inc.
Mayor Don Peoples, Butte
Doug Phair, Roundup Powder Co., Inc.
Evelyn Pyburn, *Big Sky Business Journal*
Joe Reber, Montana Board of Investments
Dan Regan, The Montana Power Company
Mayor Russ Ritter, Helena
Lewis Robinson, West Associates, Inc.
George Ruff, Mountain Bell
Phil Sandquist, First Security Bank—Bozeman
Paul Schmechel, The Montana Power Company
Jack Schuchart, MDU Resources, Inc.
Gov. Ted Schwinden
Jack Sherick, Multi Tech, Inc.
Jim Spring, Christian, Spring, Sielbach & Associates
Steve Studt, *Great Falls Tribune*
Mike Tuck, Multi Tech, Inc.

In addition to the names listed above, many members of the audience participated in the question-and-answer and group discussion sessions.

Transition Businesses

Clint Grimes, Montana International Trade Commission Consultant—Helena
Dottie Maitland, Montana Leisure—Kalispell
Charles McLaughlin, Alternative Diagnostix, Inc.—Missoula
Sen. Ted Neuman, Dairy Farmer—Vaughn
Alan Richardson, Montana Tunnels Project, Pegasus Gold Corp.—Helena
Jim Schueler, Rocky Mountain Log Homes—Hamilton
Ray Tilman, Montana Resources Inc.—Butte
Kent Williams, Montana Silversmiths—Columbus
Keith and Faye Woods, Woods' Powr-Grip Inc.—Wolf Point

Program Agenda

Tuesday, July 22, 1986
Copper King Inn • Butte, Montana

8:15 a.m.-8:50 a.m.
Registration-*Lobby*

9:00 a.m.-9:45 a.m.
Opening Session-*Columbia Gardens Room Poolside*
Introduction
Keith Colbo, Director, Montana Department of Commerce
Opening Remarks
Montana Governor Ted Schwinden
Paul Schmechel, Chairman and CEO, The Montana Power Co.
Ian B. Davidson, President of the Montana Ambassadors; Chairman and CEO, D.A. Davidson and Co.

9:45 a.m.-10:30 a.m.
"Montana-An Economy in Transition"
Keynote Presentation by Dr. David Birch

10:30 a.m.-10:45 a.m.
Coffee Break

10:45 a.m. -11:45 a.m.
Continuation of Presentation by Dr. Birch
Question and Answer Session with Participants

11:45 a.m.-noon
Instructions for Afternoon Groups

Noon -1 p.m.
Lunch-*Crazy Clancy's Lounge*

1 p.m.-2:45 p.m.
"Business in Transition"
Five discussion groups
Agriculture-*Kelly Room*-Facilitator: Marilyn Wessel
Timber-*Mountain Con Room*-Facilitator: Maureen Fleming
Mining-*Orphan Girl Room*-Facilitator: Nancy Sheetz-Freymiller
Tourism-*Anselmo Room*-Facilitator: Francis J. Kerins
Small Business, Manufacturing and Technology-*Badger Room*-Facilitator: Larry K. Hannah

2:45-3:15 p.m.
Survey/Questionnaire

3:15-4 p.m.
Discussion Groups Summary-*Columbia Gardens Room Poolside*

4 p.m.-5 p.m.
Recommendations and Conclusion

Montana

An Economy in Transition

GRAPHICS: Len Visual Design